

# Inspector General

## United States

## Department *of* Defense



Additional Actions Needed to Mitigate Risks of  
Unsuitable Life Insurance Sales to Junior Enlisted  
Service Members

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## **Acronyms and Abbreviations**

DFAS	Defense Finance and Accounting Service
DON	Department of the Navy
GAO	Government Accountability Office
NAIC	National Association of Insurance Commissioners
PDUSD (P&R)	Principal Deputy Under Secretary of Defense for Personnel and Readiness
SECNAVINST	Secretary of the Navy Instruction
SGLI	Servicemembers' Group Life Insurance



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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AUG 23 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND  
READINESS

COMMANDANT OF THE MARINE CORPS  
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
NAVAL INSPECTOR GENERAL

SUBJECT: Additional Actions Needed to Mitigate Risks of Unsuitable Life Insurance Sales to  
Junior Enlisted Service Members (Report No. D-2011-099)

We are providing this report for review and comment. The impact of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," March 30, 2006, and mandated reforms in the Public Law 109-290 were generally effective. However, some life insurance agents continue to use prohibited practices to sell unsuitable life insurance products to junior enlisted Service members. We considered comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Defense Finance and Accounting Service and U.S. Army Garrison, Fort Campbell, conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. However, the Deputy Assistant Secretary of Defense for Military Community and Family Policy was responsive but did not provide a completion date for the planned actions. As a result of the Deputy Assistant Secretary comments, we revised draft Recommendation 1.a to clarify reporting requirements needed for the Commercial Solicitation Report. We request the Deputy Assistant Secretary comment on Recommendations 1.a, 1.b, 1.c, and 2 by September 22, 2011 that include a completion date.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, please send a .pdf file containing your comments to [audros@dodig.mil](mailto:audros@dodig.mil). Copies of management comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8866 (DSN 664-8866).

Alice F. Carey  
Assistant Inspector General  
Readiness, Operations, and Support





# Results in Brief: Additional Actions Needed to Mitigate Risks of Unsuitable Life Insurance Sales to Junior Enlisted Service Members

## What We Did

Public Law 109-290 requires the DoD Office of Inspector General to conduct a study on the impact of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," March 30, 2006, and the reforms included in the law on the quality and suitability of sales of securities and insurance products marketed to members of the Armed Forces. We visited six military bases, reviewed State insurance actions, analyzed DoD pay records, spoke with DoD and State regulatory officials, and had Service members complete questionnaires.

## What We Found

The impact of DoD Instruction 1344.07 and mandated reforms in Public Law 109-290 was generally effective. Although controls are generally in place on military installations to protect Service members from sales of unsuitable life insurance products, responsible officials can and should take further action. Sales of unsuitable life insurance products continued on or near five of six military bases visited. This occurred because:

- Insurance agents used prohibited sales practices on and near bases;
- Some responsible installation personnel at Camp Pendleton and Marine Corps Camps in Okinawa, Japan, did not comply with existing solicitation policies and guidance;
- Junior enlisted Service members inappropriately used the myPay system to initiate life insurance allotments;
- Junior Enlisted Service members rarely filed complaints to appropriate base

personnel or State insurance regulators; and

- DoD did not have adequate knowledge of agents and companies debarred, banned, or limited from solicitation on and near DoD installations.

Although DoD and some States have taken corrective actions, junior enlisted Service members continue to purchase high-cost life insurance products considered unsuitable for most military personnel, and these products may threaten their financial stability.

## What We Recommend

Among other recommendations, we recommend that the Deputy Assistant Secretary of Defense for Military Community and Family Policy, expand the requirement for types of information to be reported in the Personal Commercial Solicitation Report; and require Military Services to update financial training to increase Service members' awareness.

## Management Comments and Our Response

The Defense Finance and Accounting Service and U.S. Army Garrison, Fort Campbell, Kentucky, comments were responsive. The Deputy Assistant Secretary of Defense for Military Community and Family Policy comments were responsive but did not provide a completion date for the planned actions. We revised draft Recommendation 1.a to clarify reporting requirements needed for the Commercial Solicitation Report. We request the Deputy Assistant Secretary provide comments on Recommendations by September 22, 2011 that include a completion date. See the recommendation table on page ii.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Assistant Secretary of Defense for Military Community and Family Policy	1.a, 1.b, 1.c, and 2.	
Director, Defense Finance and Accounting Service		3.
Garrison Commander, Fort Campbell, Kentucky		4.

**Please provide comments by September 22, 2011.**

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# Introduction

## Objective

We initiated this audit in response to the requirements of Public Law 109-290, “Military Personnel Financial Services Protection Act,” September 29, 2006. The law requires the DoD Office of the Inspector General to conduct a study on the impact of DoD Instruction 1344.07, “Personal Commercial Solicitation on DoD Installations,” March 30, 2006, and the reforms included in the law on the quality and suitability of sales of securities and insurance products marketed to members of the Armed Forces. See Appendix A for a discussion of the audit scope and methodology and prior coverage on this issue.

This is the third in a series of reports (see Prior Coverage in Appendix A) addressing the reforms included in the law on the quality and suitability of sales of securities and insurance products marketed to members of the Armed Forces. On December 30, 2010, we provided briefing charts summarizing our tentative findings to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

## Background

This audit was performed in accordance with Public Law 109-290, Section 14. Public Law 109-290 requires

- (a) STUDY.—The Inspector General of the DoD shall conduct a study on the impact of DoD Instruction 1344.07 (as in effect on the date of enactment of this Act) and the reforms included in this Act on the quality and suitability of sales of securities and insurance products marketed or otherwise offered to members of the Armed Forces.
- (b) REPORTS.—Not later than 12 months after the date of enactment of this Act, the Inspector General of the DoD shall submit an initial report on the results of the study conducted under subsection (a) to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, and shall submit followup reports to those committees on December 31, 2008 and December 31, 2010.

## *Prior Audits on Commercial Solicitation*

Congress enacted Public Law 109-290 to protect members of the Armed Forces from unscrupulous practices regarding sales of insurance, financial, and investment products. Congress has found that certain life insurance products offered to members of the Armed Forces were improperly marketed as investment products, providing minimal death benefits in exchange for excessive premiums that are front-loaded in the first few years, making them inappropriate for most military personnel. The results from our prior audits identified that the reforms contained in Public Law 109-290 and the impact of revised DoD Instruction 1344.07 have been generally effective in reducing commercial solicitations of inappropriate life insurance products to military personnel by sales agents

on the DoD installations visited. Further, responsible DoD and State officials have implemented corrective actions to address the use of inappropriate marketing practices for unsuitable products and mitigate risks identified in our past reviews. For example, the Military Services are providing personal financial readiness and consumer awareness training, and the Military Services have updated and implemented guidance to help prevent inappropriate insurance product sales to Military Service members on their installations. Finally, a number of different safeguards are in place at DoD and at State levels to protect Service members from prohibited marketing practices of unsuitable products.

### ***Servicemembers' Group Life Insurance Program***

All Military Service members are automatically enrolled in the Servicemembers' Group Life Insurance (SGLI) program on the first day of active duty or active duty training; or the beginning of a period of inactive duty training. This program costs \$3.25 per \$50,000 in group term life insurance coverage, plus a mandatory \$1 per month for Traumatic Injury Protection. The maximum insurance available is \$400,000, at a cost of \$27. At no cost to the Service member, the Military Service pays a one-time Death Gratuity Payment of \$100,000 to the designated beneficiary in the event of a Service member's death while on active duty. This payment is independent of the SGLI and is paid regardless of a member's participation in the SGLI program. Service members are provided options to decline coverage or reduce coverage from the maximum (and automatically applied) \$400,000 benefit at the time of entry into active duty.

### ***DoD's Responsibilities for Developing Guidance on Commercial Solicitation***

The Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD[P&R]), is responsible for developing the policies and procedures governing personal commercial solicitation for life insurance and other products. Further, the heads of DoD Components, or their designees, are responsible for ensuring implementation of DoDI 1344.07 and compliance with its provisions. Each Military Service provides additional regulations regarding commercial solicitations, and some installations further specify how these DoD and Service policies and practices will be implemented locally.

### ***Armed Forces Disciplinary Control Boards***

Army Regulation 190-24/Office of the Chief of Naval Operations Instruction 1620.2A/Air Force Instruction 31-213/Marine Corps Order 1620.2D/Commandant, United States Coast Guard Instruction 1620.1E, "Armed Forces Disciplinary Control Boards and Off-Installation Liaison and Operations," July 27, 2006, provides policies and procedures for establishing and operating Armed Forces Disciplinary Control Boards (Disciplinary Control Boards). Installation commanders may establish Disciplinary Control Boards to advise and make recommendations for eliminating conditions

adversely affecting the health, safety, welfare, morale, and discipline of military personnel. The Disciplinary Control Boards:

- are comprised of representatives from various functional areas such as law enforcement, legal counsel, health, and consumer affairs and are required to meet quarterly;
- receive reports and take appropriate action on conditions related to issues such as disorder and lack of discipline, prostitution, liquor violations, illicit gambling, and unfair commercial or consumer practices; and
- report to commanders in their area of responsibility the results of reports and recommended actions to prevent or control undesirable conditions and coordinate with appropriate civil authorities.

### ***State Responsibilities for Insurance Regulation***

State government entities are the primary regulators of insurance companies and agents. The State insurance regulators oversee companies and agents in several ways, including reviewing and approving products for sale and examining company operations to ensure their financial soundness and proper market conduct. Although each State has its own insurance regulations and laws, the National Association of Insurance Commissioners (NAIC) coordinates the regulation of multi-state insurers. The NAIC is comprised of the insurance department heads for each State, the District of Columbia, and five U.S. territories. It provides a national forum for addressing and resolving major insurance issues and for allowing regulators to develop consistent policies for regulating insurance when appropriate.

As mandated by Public Law 109-290, the NAIC developed a Military Sales Practices Model Regulation that provides standards for commercial solicitation and life insurance products both on and off military installations. The regulation protects Service members, ranks E-4 and below, by declaring certain actions as false, misleading, deceptive, or unfair. As of September 20, 2010, 49 of 50 States, the District of Columbia, and Puerto Rico had adopted or enacted legislation and accepted the model regulation as their State insurance regulation, and Michigan is awaiting approval from its legislature on the model regulation. Some States, such as, California, Kentucky, and Tennessee, extended the protections to all Service members, regardless of rank.

### ***Defense Finance and Accounting Service Allotment Data***

The Defense Finance and Accounting Service (DFAS) oversees payroll computer systems and databases. MyPay, an automated system operated by DFAS, allows DoD personnel to electronically process certain discretionary pay data items including starting, stopping, or changing allotments.

DoD Regulation 7000.14-R, Financial Management Regulation (DoD FMR), volume 7A, Chapter 42, October 2010, allows Service members to use an allotment to pay for commercial life insurance. Service members must make the allotment to the home or branch office of the agency issuing the policy and not to a financial institution where the allotment is established for or controlled by the life insurance company. Service

members cannot change financial allotments in myPay for items such as charity, insurance, thrift saving, garnishments, union, or other organizational dues.

Previous reviews by State insurance regulators have identified three banks, owned by two related life insurance companies, which receive and process allotments from Service members to pay for life insurance products.

Data provided by DFAS shows all allotments made by Service members, ranks E1-E4, through the myPay system from January 2008 through March 2010 for the Army, Navy, and Air Force; and from November 2007 through March 2010 for the Marine Corps. We analyzed the data to determine the number of new allotments made to the three banks previously identified. We did not verify that all of these allotments were to purchase life insurance, but through conversations with the State insurance regulators, we determined that the allotments had the characteristics of inappropriate life insurance sales. For example, bank account numbers consisted of a specific prefix along with Service members' social security numbers and/or life insurance companies' names in the dependent field. Table 1 shows the universe of new allotments during the time periods above for each of the Services.

**Table 1. New Allotments Made to Targeted Banks**

	<b>Number of New Allotment Starts</b>	<b>Average Amount of Allotment per Month</b>	<b>Value of Total Monthly Allotments</b>
Army	8,394	\$124.28	\$1,043,215
Navy	1,439	\$141.96	\$204,283
Air Force	2,447	\$147.34	\$360,547
Marine Corps	3,385	\$130.18	\$440,675
<b>Total</b>	<b>15,665</b>	<b>\$130.78</b>	<b>\$2,048,720</b>

In June 2010, we received updated Marine Corps allotment data; and in September 2010, we received updated data for the other Military Services. These updated data showed when the allotment was started and if or when the allotment was stopped. Table 2 shows the amount of money Service members paid into allotments still open as of August 2010 (as of June 2010 for the Marine Corps) and for those allotments that were closed.

**Table 2. Amount Paid Into Allotments (in millions)**

	<u>Open Allotments</u>	<u>Closed Allotments</u>	<u>Total</u>
Army	\$4.05	\$3.34	\$7.39
Navy	\$0.88	\$0.62	\$1.50
Air Force	\$1.30	\$0.96	\$2.26
Marine Corps	\$2.53	\$1.40	\$3.93
<b>Total</b>	<b>\$8.76</b>	<b>\$6.32</b>	<b>\$15.08</b>

Allotments to one of the three banks from January 2008 through August 2010 were stopped after an average of 4.65 months for soldiers, 4.62 months for sailors, and 3.96 months for airmen. Marines who started an allotment from January 2008 through June 2010 stopped the allotment after an average of 5.21 months.

## **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls providing reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. Although internal controls were in place to prevent prohibited solicitations of unsuitable life insurance products on installations, we identified internal control weaknesses in the supervision and enforcement of commercial solicitation practices on base at Marine Corps Base Camp Pendleton, California; and Marine Corps Camps in Okinawa, Japan. Headquarters, U.S. Marine Corps, Marine Corps Base Camp Pendleton, California; and Marine Corps Camps in Okinawa, Japan, implemented corrective actions during our audit to address internal control issues we identified. In addition, we identified additional actions that responsible officials must address to further mitigate risks pertaining to the sale of unsuitable life insurance products. See the finding for details. We will provide a copy of the report to the senior officials responsible for internal controls.

# **Finding. Additional Actions Needed to Mitigate Risks of Unsuitable Life Insurance Sales to Junior Enlisted Service Members**

The impact of DoD Instruction 1344.07 and mandated reforms in Public Law 109-290 on the quality and suitability of sales of financial products marketed to Service members was generally effective. Although controls are generally in place on military installations to protect Service members from sales of unsuitable life insurance products, responsible officials can and should take further action. Sales of unsuitable life insurance products sold by insurance agents for two companies continued on or near five of the six military installations we visited. This occurred because:

- Insurance agents used prohibited sales practices on and off the bases;
- Some responsible installation personnel at Camp Pendleton and Marine Corps Camps in Okinawa, Japan, failed to comply with existing solicitation policies and guidance which contributed to agents using prohibited practices on bases;
- Junior enlisted Service members inappropriately used the myPay system to initiate life insurance allotments;
- Junior enlisted Service members rarely filed complaints to appropriate base personnel or the State insurance regulators; and
- DoD did not have adequate knowledge of agents and companies debarred, banned, or limited from solicitation on DoD installations.

Although DoD has taken some corrective actions and some States have initiated actions against insurance agents and companies, junior enlisted Service members continue to purchase high-cost life insurance products considered unsuitable for most military personnel and which may threaten their financial stability.

## **DoD, Military Services, and States Implemented Controls Regulating Commercial Solicitations**

Controls are generally in place on military installations and bases to protect Service members from sales of unsuitable life insurance products. DoD and Military Services

*DoD and Military Services have continued to update policies and training regarding personal commercial solicitation to safeguard and promote the welfare of Service members as consumers.*

have continued to update policies and training regarding personal commercial solicitation to safeguard and promote the welfare of Service members as consumers. Further, they have implemented a uniform approach to the conduct of all personal commercial solicitation and sales by dealers and their agents. In addition, the NAIC has implemented controls to assist State insurance

regulators with meeting reforms established in Public Law 109-290.

## ***DoD Controls***

PDUSD (P&R) revised DoD Instruction 1344.07, “Personal Commercial Solicitation on DoD Installations,” on March 30, 2006. The revision added new prohibitions and requirements for on-base solicitations. For example, the DoD Instruction now requires that:

- solicitors of financial products such as life insurance be duly licensed to sell the products, have an appointment with the individual, and provide Service members with an evaluation form and a written reminder that free legal advice is available on the base;
- agents refrain from engaging in commercial solicitation practices prohibited on all DoD installations;
- the Office of the PDUSD (P&R) maintain a list of all State Insurance Commissioner points of contact for DoD matters and forward this list to the Military Services;
- the Office of the PDUSD (P&R) maintain the Personal Commercial Solicitation Report and make available to installation commanders the current master file of all individual agents, dealers, and companies who had their privileges withdrawn at any DoD installation. The report identifies the companies and agents barred, reason for debarment, and length and location of debarment;
- Military Service Headquarters provide debarment information to the Office of the PDUSD (P&R) for inclusion in the Personal Commercial Solicitation Report;
- installation commanders report concerns or complaints about the quality or suitability of financial products, as well as the marketing methods used to sell them, to the appropriate Federal and State regulatory authorities; and
- companies selling financial products on overseas U.S. military installations register with the PDUSD (P&R) before agents apply for a permit to solicit. The list of registered companies is released annually to the appropriate overseas Combatant Commanders.

## ***Army Controls***

The Assistant Chief of Staff for Installation Management revised Army Regulation 210-7, “Personal Commercial Solicitation on Army Installations,” October 18, 2007. The Army Regulation includes policies and procedures outlined in the DoD Instruction and changes the responsibility for personal commercial solicitation from the Office of Adjutant General to the Office of the Assistant Chief of Staff for Installation Management. The regulation applies to all Army military and civilian personnel and requires garrison commanders to report to the appropriate State or Federal regulator incidents involving licensing, compliance with State or Federal laws, and complaints involving insurance or financial products or how they are marketed.

Along with policies and guidance, the Army provides soldiers training on the basics of personal finance, such as understanding the Leave and Earnings statement and the Thrift Savings Plan. Soldiers also receive more comprehensive financial management training during advanced individual training. For example, soldiers are advised of different types of insurance scams and consumer frauds, how to deal with high-pressure sales tactics,

and how to identify individual insurance needs. In addition, soldiers receive base-level financial training. For example, Army Community Services in Korea offers soldiers personal finance training as well as optional courses that address insurance needs, consumer rights, and scams.

### ***Navy Controls***

The Assistant Secretary of the Navy (Manpower and Reserve Affairs) revised Secretary of the Navy Instruction (SECNAVINST) 1740.2E, “Solicitation and the Conduct of Personal Commercial Affairs on Department of the Navy Installations,” July 12, 2008. The instruction includes policies and procedures outlined in DoD Instruction 1344.07 and updates policies, procedures, and requirements governing personal commercial solicitation and insurance sales on Department of the Navy (DON) installations. The revised instruction states:

The installation commander shall presume that any life insurance product with any of the features described below is inappropriate for the needs of the military community...

- Any life insurance policy in which the premium for life insurance is more than the amount that would be charged for Veterans’ Group Life Insurance coverage for a 25-year-old insured for the same amount of insurance coverage...
- Excluding annuities, any life insurance product with a savings component or side fund...
- ...any life insurance product that does not meet the standards established in the NAIC’s “Military Sales Practices Model Regulation” and any standards adopted by the State in which the installation is located.

The revised Instruction also states if the agents have been denied permission to solicit aboard any DoD installation or their permission to solicit has been revoked, the agents may not engage in any commercial solicitation on any DON installation.

Along with policies and guidance, the DON and the U.S. Marine Corps provide general training pertaining to consumer awareness and insurance needs. The training identifies different types of scams and fraud, why Service members are targets for the scams and fraud, and whom to contact if Service members have been subjected to prohibited solicitation practices for unsuitable products. Insurance training describes how to determine insurance needs and whom to contact for counseling, as well as common mistakes made when purchasing life insurance. In addition, Marines receive training at their respective bases. For example, Marines at Camp Smedley D. Butler in Okinawa receive additional consumer awareness training that identifies prohibited on-base commercial solicitation practices and whom to contact for assistance.

### ***Air Force Controls***

The Deputy Chief of Staff for Manpower and Personnel revised Air Force Supplement DoDI 1344.07\_AFI 36-2702, “Personal Commercial Solicitation on Air Force Installations,” November 7, 2007. The supplement incorporates the policies and

procedures outlined in the DoD Instruction and specifically defines Air Force roles and responsibilities. The Air Force Supplement states that the Installation Staff Judge Advocates are responsible for reporting instances of withdrawal or notification of denial of commercial solicitation privileges through the Major Command Staff Judge Advocates to the Office of the Judge Advocate General of the Air Force, Administrative Law Division.

Along with policies and guidance, the Air Force provides airmen with financial training. In basic training, the Air Force warns airmen about life insurance products misleadingly marketed as investments and offered to military personnel. Airmen are advised to consult with the base legal office to determine if sales agents they encounter are banned from the base, as well as to whom they should report abusive companies and agents. In addition, when making decisions about life insurance purchases, airmen are advised to consult with financial counselors at the Airman and Family Readiness Center and check with the State insurance commissioner's office regarding the agent and insurance company. Also, airmen receive base-level financial training. For example, Sheppard Air Force Base offers additional financial training to its airmen, including information on Servicemembers' Group Life Insurance, the Thrift Savings Plan, and "Red Flag" warnings to look for when purchasing commercial life insurance.

### **State Controls**

Shortly after Public Law 109-290 was signed, the NAIC appointed a Military Sales Working Group to assist State insurance regulators in achieving applicable directives set forth in the law. Early in the process, in conjunction with DoD, the NAIC developed a Military Sales Educational Brochure with State contact numbers for military personnel. This brochure has been circulated to State insurance departments and is available on the NAIC Web site. Further, although not required by law, the NAIC and DoD have worked together to develop a "Red Flag" advisory to alert Service members to sales practices used by agents selling a life insurance policy as an investment or savings plan.

The NAIC, as mandated by Public Law 109-290, developed a Military Sales Practices Model Regulation that sets forth standards for commercial solicitation and life insurance products marketed both on and off military bases. The standards protect Service members by declaring certain actions as false, misleading, deceptive, or unfair.

### **Insurance Agents Used Prohibited Sales Practices**

Sales of unsuitable life insurance products sold by insurance agents for two companies continued on or near five of the six military installations we visited. This occurred because insurance agents used prohibited sales practices on and near bases, and some responsible installation personnel at Camp Pendleton and Marine Corps Camps in Okinawa, Japan, failed to comply with existing solicitation policies and guidance which contributed to agents using prohibited practices on bases. We identified violations of DoD Instruction 1344.07 and the State insurance regulations at areas on or near five of the six military installations we visited.

Based on the data DFAS provided, we identified Service members who had potentially purchased life insurance products at each of the six sites we visited. We provided a non-statistical sample of 1,319 names out of 15,665 allotments to personnel at the installations, but because of the continued deployments and changes in duty stations, we were able to meet with only 65 of those Service members. We asked them to complete questionnaires to identify the purpose of the allotment, whether it was for insurance or an investment product, and how junior enlisted Service members were solicited for the purchase.

Of the 65 Service members who completed the questionnaires, 8 provided copies of the product they had purchased. All eight products were life insurance policies with an attached accumulation fund, which Congress considers unsuitable insurance policies for most junior enlisted Service members. All of the policies came from two life insurance companies, and average death benefit for each was approximately \$44,000 for a total monthly allotment of \$158. These eight policies averaged approximately \$111 of the \$158 allotment paid to the insurance premium and \$47 of the \$158 to the accumulation

*Sixty-one percent of junior enlisted Service members with allotments to the banks owned by these two life insurance companies cancelled their allotments within the first 12 months, likely forfeiting the premiums paid for the life insurance.*

fund in the first year. In the second and subsequent years, the eight policies averaged \$37 of the \$158 allotment paid to the insurance premium and \$121 of the \$158 to the accumulation fund. The fact that the premiums for the life insurance are front-loaded in the first year is significant considering that, from the updated DFAS data we collected, 9,460 out of 15,484 (61 percent) of junior enlisted Service members with allotments to the banks owned by these two life insurance companies cancelled their

allotments within the first 12 months, likely forfeiting the premiums paid for the life insurance.

The average allotment amount for the 8 policies we reviewed was \$158 per month. This is a large portion of a Service member's pay, especially those in grades E1-E4, the group on which our audit focused. For example, a monthly allotment of \$158 would be more than 10 percent of gross basic pay (\$1,568.70/month as of January 2009) for an E2 Service member with 2 years of active-duty service. In addition, five of the eight Service members were Marines, and certain features of the life insurance products provided by the Marines violated the SECNAVINST 1740.2E policy on requirements for life insurance policies sold on base.

### ***Violations of DoD Instruction***

Based on our interviews with Service members and the questionnaires they completed, we concluded that insurance agents used prohibited practices on base at three of the six installations we visited. In addition, some responsible base personnel failed to comply with controls established in the DoD Instruction 1344.07, thus contributing to the insurance agents' use of prohibited practices on base. From the 1,319 names selected, 711 Service members were identified as having potentially purchased insurance while stationed at Camp Pendleton; Marine Corps camps in Okinawa, Japan; and U.S. Army

installations in Korea. Thirty-nine were available to complete our questionnaire. Of the 39 Service members, 25 purchased the life insurance policy on base.

### On-Base Prohibited Practices Identified

Table 3 provides the number of prohibited practices identified by the 25 Service members who completed questionnaires.

**Table 3. DoD Instruction 1344.07 Prohibited Practices**

Section Number and Prohibited Practice	Number of Alleged Violations of 25
<b>6.2.4</b> The conduct of all insurance business on DoD installations shall be by specific appointment.	9
<b>6.2.7.2</b> The use of an agent as a participant in any Military Service-sponsored education or orientation program.	14
<b>6.4.1</b> Solicitation of any DoD personnel in a “captive” audience where attendance is not voluntary.	15
<b>6.4.3</b> Soliciting in barracks, day rooms and unit areas.	20
<b>6.4.5</b> Procuring, attempting to procure supplying or attempting to supply non-public listings of DoD personnel for the purposes of commercial solicitation.	3
<b>6.4.7</b> Using promotional incentives to facilitate transactions or eliminate competition.	2
<b>6.4.9</b> Using oral or written representations to suggest or give the appearance that the DoD sponsors or endorses any particular company, its agents, or the goods, services, and commodities it sells.	15
<b>6.4.13</b> Soliciting door to door without an appointment.	9
<b>6.5.1.6</b> Using or assisting in using a Service member's “MyPay” account or other similar internet medium for the purpose of establishing a direct deposit for the purchase of insurance or other investment product.	10
<b>E3.1.4</b> Insurance products shall not be marketed or sold disguised as investments.	6

### Marine Corps Base Camp Pendleton, California

Before our visit in June 2010, we provided a list of 265 individuals we wanted to interview and have complete questionnaires. The Camp Pendleton Legal Assistance Office was able to locate only 11 of those Marines. The 11 Marines acknowledged they purchased the insurance product. They said their first contact with the insurance agents was during a sales presentation at a personal finance class sponsored by their battalion, from March 2009 through June 2009. The insurance agent's sales presentation and the base personnel responsible for the presentation's approval were in violation of DoD Instruction 1344.07. As a result of our review, the 11 Marines filed complaints through their Legal Assistance Office to the insurance company and obtained a refund for

their premiums paid. The Legal Assistance Office filed formal complaints with the California insurance regulator; however, we do not know the outcome because complaints made to the State are confidential until final action is taken, and the action is still pending.

## **Marine Corps Camps in Okinawa**

Before our visit in June 2010, we provided a list of 221 individuals we wanted to interview and have complete questionnaires. The Marine Corps presence on Okinawa is divided into camps that fall under Marine Corps Base Camp Smedley D. Butler. Camp Butler is the base support command for U.S. Marine Corps ground forces on Okinawa and at Camp Fuji on Honshu Island, Japan. Camp Butler consists of numerous sub-installations of varying size and mission, including, but not limited to, the Camps we visited: Camps Kinser, Hansen, Courtney, and Foster.

We visited four Marine Corps Camps in Okinawa, Japan, and met with 17 Marines at 3 camps we visited – Kinser, Hansen, and Foster. We did not meet with any Marines at Camp Courtney because none showed up. We identified prohibited sales practices by sales agents for life insurance considered unsuitable for most Service members occurring on base, a violation of DoD Instruction 1344.07.

**Camp Kinser.** At Camp Kinser, four Marines completed the questionnaire. Three claimed that during their unit financial class, a life insurance agent provided a sales presentation on saving for retirement. A DoD civilian teaching the financial class, also attended by a noncommissioned officer, introduced the life insurance agent. None of the Marines recalled providing their contact information to the insurance agent; however, a few days later a staff noncommissioned officer directed the Marines to come to the barracks lounge, where the life insurance agent took the Marines in groups of three to four to solicit the life insurance products. The insurance agent's sales presentation, the agent's cold calls to the barracks lounge to sell insurance products, and the noncommissioned officers' approval of these actions were in violation of DoD Instruction 1344.07. As a result of the agent's persistence, two of the three Marines purchased unsuitable life insurance products.

The other Marine we interviewed stated that the life insurance agent first contacted him when he was in field day<sup>1</sup> formation outside the barracks. He said that two civilians

*While it “appeared voluntary” to provide the contact information, the Marines were not allowed out of formation until they provided it.*

approached the Marines who were in formation to begin cleaning and said they had information on military benefits. They stated that if the Marines provided point-of-contact information, the agents would provide more information regarding the benefits. The Marine stated that while it “appeared voluntary” to provide the contact information, the

Marines were not allowed out of formation until they provided it. The Marine also stated

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<sup>1</sup> Field day is a regularly designated day for Marines to clean the barracks.

that the agents came to the barracks on weekends for about a month, knocking on doors and inviting Marines to the barracks lounge where they presented insurance information, resulting in Marines buying insurance products. He said Marines accessed myPay on their respective computers to set up the allotments. Actions by the insurance agents and the noncommissioned officer violated DoD Instruction 1344.07. In addition, the Marine stated that a strong selling point for the insurance product was an endorsement letter provided by the insurance agent and signed by six retired four-star Generals and Admirals (see Appendix C for a copy of the endorsement letter). However, the Marine said he discussed the life insurance product with his personal financial advisor, and they decided that it was not an appropriate product, so he cancelled the allotment after only 5 or 6 days.

With the assistance of Headquarters U.S. Marine Corps personnel, we attempted to contact the retired generals and admirals to determine whether they actually endorsed the two insurance companies selling unsuitable life insurance products to junior Service members. In summary, we received responses from one of the retired generals and from an aide for another retired general. Both confirmed the general officers had signed the endorsement letter. However, they stated that the insurance companies were supposed to send the letter to the DoD in an effort to allow other financial products to be offered to Service members because, at the time, DoD was promoting only the Thrift Savings Plan.

**Camp Hansen.** At Camp Hansen, 11 Marines completed the questionnaires, 10 of whom purchased the life insurance policy on base. Six of the 10 Marines stated that 2 insurance agents, 1 of whom claimed to be retired military, showed up at the barracks without an appointment. The two insurance agents set up computers in the barracks day room and provided their sales presentation to the Service members. This was in violation of DoD Instruction 1344.07. In addition, one Marine tried to cancel the policy within the first 10 days, but the insurance company was unresponsive. Six months later, the Marine met with a personal financial manager for assistance. The Marine Corps Community Service Office forwarded the issue to the Base Inspector General for possible action. However, we informed the Marine Corps Community Service Office personnel they should advise any future Marines with questions on life insurance sales to see their respective legal services offices.

**Camp Foster.** At Camp Foster, two Marines completed questionnaires. One Marine was referred by a friend to the life insurance company, and the other received an unsolicited call on her cell phone from a life insurance agent. The insurance agent was evasive and unresponsive when the Marine asked how the agent got her phone number. The Marine informed us that she was not initially interested in the insurance product offered; however, she became interested when the agent showed her the endorsement letter signed by the four-star generals and admirals. Given these senior level endorsements, the Marine stated she assumed the life insurance product was a good investment and purchased it. She informed us it was not until later, after discussion with a financial management instructor, that she realized she had actually purchased life insurance with a side-savings product.

During our visit to Marine Corps Camps in Okinawa, Japan, we spoke with Marine Corps Community Service Office personnel who provide financial counseling services to Marines. Responsible personnel stated that before our site visit, they were aware of some issues with the sales of inappropriate life insurance on Okinawa. To heighten Marines' awareness, personnel periodically disseminate articles on insurance scams and predatory sales practices in Okinawa across their wide-area network. Also, Marine Corps Community Service financial advisors informed us that they discuss different types of life insurance at financial briefs for Marine Corps units; however, the financial advisors stated they were unaware that they could advise the Marines to see their Legal Service Office or to contact the State insurance regulators for assistance with violations of prohibited practices for selling life insurance.

### **Marine Corps Installations in San Diego, California**

Before our visit in June 2010, we provided a list of 203 individuals we wanted to interview and have complete questionnaires at Marine Corps Recruit Depot in San Diego, California. None of the Marines whose names we provided were at this location, and we found no evidence of life insurance solicitation at the Marine Corps Recruit Depot in San Diego, California. However, during our review, the Family and Financial Services Office informed us that the allotment data for the San Diego area likely included Marine Corps Air Station Miramar, California. We contacted the Staff Judge Advocate's office at Miramar, and Staff Judge Advocate personnel informed us a recent action with a life insurance agent occurred on post. Specifically, a Service member complained that a life

*A financial counselor, who forwarded the information to the command for investigation, which resulted in Marine Corps officials refusing to renew the agent's pass.*

insurance agent solicited insurance sales and passed out business cards after a mandatory financial class in September 2009. The installation report filed with the California Department of Insurance identified violations of State, DoD, and DON policies regarding prohibited practices. The Marine said that the

agent contacted him several times, which eventually resulted in his purchase of unsuitable life insurance. He then related his unfavorable experience to a financial counselor, who forwarded the information to the command for investigation, which resulted in Marine Corps officials refusing to renew the agent's pass. Additionally, the Marine received a refund of premiums paid after he filed a complaint with the insurance company.

### **U.S. Army Garrisons in Korea**

Before our visit in June 2010, we provided a list of 225 individuals we wanted to interview and have complete questionnaires. We were able to meet or teleconference with 11 Service members during our visit, all of whom completed questionnaires. During our interviews at U.S. Army Garrison, Camp Casey, one soldier stated he purchased a life insurance product on base at U.S. Army Garrison, Yongsan. The soldier said an insurance agent approached him and another soldier while they were shopping in the

post-exchange and began discussing the benefits of the GI Bill.<sup>2</sup> The agent made an appointment to meet with both soldiers in the barracks the next day to discuss more about the GI Bill. There, the soldier said the agent provided them with an endorsement letter signed by six retired four-star generals and admirals (see Appendix C), which led to his purchase of what he thought was an investment. Further, the agent used his laptop computer to access myPay online and had the soldier log into his myPay account and initiate the allotment. These actions by the insurance agent are violations of DoD Instruction 1344.07. The soldier mistakenly believed his allotment would apply towards an investment and not life insurance. Also, the soldier stated he cancelled the allotment after a month or two because the insurance company would not contact him regarding questions he had about the product he had purchased.

In summary, insurance agents used prohibited sales practices on bases, and responsible installation personnel failed to comply with solicitation policies on Marine Corps Base Camp Pendleton and Marine Corps Camps in Okinawa, contributing to agents using prohibited practices on base. These are violations of DoD Instruction 1344.07. In addition, we identified insurance agents or companies that did not respond to questions or concerns from Service members. Insurance agents and DoD responsible officials must be held accountable for not complying with established controls to mitigate risks associated with the financial welfare of military personnel and their families. Therefore, DoD should consider updating financial training to Service members and explain that if insurance agents or companies do not respond to questions or concerns, the Service members should seek advice from a financial advisor.

### ***Agents Violated State Insurance Regulations***

Based on questionnaires completed by Service members, we concluded that insurance agents engaged in practices prohibited by State insurance regulations on or near five of

*Insurance agents engaged in practices prohibited by State insurance regulations on or near five of the six military installations visited.*

the six military installations visited. State regulations protect Service members whether sales occur on or off base. The State in which the sales occur has jurisdiction, and, for overseas sales, the State in which the company is domiciled has jurisdiction. Of the sample of 1,319 names of military personnel that we

identified as having potentially purchased insurance, 65 completed our questionnaire. Of the 65 Service members, 40 indicated that the sales occurred off base.

### **States-Prohibited Practices Identified**

Upon reviewing the States' insurance regulations and the 65 completed questionnaires, we identified the following violations, which occurred both on and off-base (Table 4).

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<sup>2</sup> The GI Bill of Rights is the common name for the Servicemen's Readjustment Act of 1944, which provides education benefits to Service members.

**Table 4. Violations of State Prohibited Practices**

<b>States Insurance Regulations</b>	<b>Number of alleged Violations</b>
The following acts or practices by an insurer or insurance producer constitute corrupt practices, improper influences or inducements and are declared to be false, misleading, deceptive, or unfair:	
<ul style="list-style-type: none"><li>Submitting, processing, or assisting in the submission of any allotment form or similar device used by the U.S. Armed Forces to direct a Service member's pay to a third party for the purchase of life insurance. The foregoing includes, but is not limited to, using or assisting in using a Service member's "myPay" account or other similar Internet or electronic medium for such purposes.</li></ul>	41
<ul style="list-style-type: none"><li>Knowingly receiving funds from a Service member for the payment of premium from a depository institution with which the Service member has no formal banking relationship.</li></ul>	35
<ul style="list-style-type: none"><li>Knowingly offering or giving anything of value to a Service member with a pay grade of E-4 or below for his or her attendance to any event where an application for life insurance is solicited.</li></ul>	19
<ul style="list-style-type: none"><li>Advising a Service member with a pay grade of E-4 or below to change his or her income tax withholding or state of legal residence for the sole purpose of increasing disposable income to purchase life insurance.</li></ul>	11
The following acts or practices by an insurer or insurance producer lead to confusion regarding source, sponsorship, approval or affiliation and are declared to be false, misleading, deceptive or unfair:	
<ul style="list-style-type: none"><li>Making any representation, or using any device, title, descriptive name or identifier that has the tendency or capacity to confuse or mislead a Service member into believing that the insurer, insurance producer or product offered is affiliated, connected or associated with, endorsed, sponsored, sanctioned or recommended by the U.S. Government, the U.S. Armed Forces, or any Federal or State agency or government entity.</li></ul>	39

### **Fort Campbell, Kentucky**

Before our visit in April 2010, we provided a list of 200 individuals we wanted to have complete questionnaires. Because of deployments and change-of-duty stations, we were able to meet with only 11 soldiers. Nine thought they had purchased a savings or investment product, and they had purchased all products at a local shopping mall or off-base housing.

Based on the questionnaire responses and discussions with Army Community Service personnel, we met with Provost Marshall Office personnel and informed them of these off-base solicitations. After our discussions, the Provost Marshall Office sent two

investigators to the shopping mall office location, the site of inappropriate life insurance sales. One investigator stated he thought the presentation was misleading, was unclear about what the agent was selling, and that the agent had provided him with a letter of endorsement signed by six retired four-star generals and admirals (see Appendix C).

After our site visit, the Fort Campbell Provost Marshall reported a soldier's complaint that an agent was giving out free raffle tickets to win a cruise and had been notified that he had won it. The soldier was informed that he had to go to a local café to claim the prize; however, when he arrived to collect his prize, the agent told him he had to purchase life insurance to receive it. This is a violation of the Kentucky State insurance regulation. An investigator with the Provost Marshall Office contacted the insurance agent and substantiated the soldier's complaint. During the investigator's meeting with the insurance agent, the agent asked about the investigator's tax situation and eventually opened the myPay Web site and asked him to log in. This is another violation of the Kentucky State insurance regulation.

Fort Campbell held a Disciplinary Control Board meeting in October 2010 to put the above agents' business off limits; however, the Board refrained from making any decisions and requested the proprietor appear at their next meeting after its review of additional information. As of October 2010, command had not initiated action to stop or deter soldiers from attending similar life insurance sales presentations by insurance agents at the local mall. This practice continues to pose a financial risk to soldiers, as shown in updated DFAS allotment data for the 4 months immediately following our site visit. Data showed more than 250 new allotments initiated to 2 insurance companies. These sales are potentially affecting the soldiers' financial health, and command could do more to mitigate risks to the junior enlisted soldiers. Because Tennessee and Kentucky insurance regulators have not received any complaints from military Service members or base personnel, and the States' insurance regulators will not investigate the issues until they receive complaints, States can do little to hold agents and companies accountable for violations.

### **U.S. Army Garrison Camp Casey, Korea**

Before our visit in June 2010, we provided a list of 225 individuals we wanted to interview and have complete questionnaires. We were able to meet or teleconference with 11 Service members during our site visit, all of whom completed questionnaires. One purchased on base and 10 soldiers purchased the life insurance products off base as follows:

- six stated they purchased the product at the insurance agent's office outside the gate at Camp Casey;
- three stated they purchased the product in a hotel lobby outside Osan Air Base, Korea; and
- one did not provide the location where he purchased the life insurance.

Also, 7 of the 10 soldiers believed they had purchased a savings or investment product, rather than a life insurance product.

We went to the insurance agent's office outside the gate at Camp Casey where the six soldiers had purchased the insurance products. As enticement for soldiers to enter the establishment, the storefront offered free financial planning and income tax preparation assistance. In addition, the storefront displayed statements such as "free information about your Military Benefits," and "win a \$500 AAFES gift card" (see Figures 1 and 2). After our visit, responsible officials at Camp Casey informed us the agent's office had closed.

**Figures 1 and 2. Storefront Windows Outside of Camp Casey, Korea**



In summary, the storefront displayed signs that could lead to possible confusion regarding sponsorship and affiliation with the U.S. Armed Forces, and which could confuse or mislead Service members. This is a violation of States' insurance regulations. The products and services offered by the business are routinely available for free at installation Morale, Welfare, and Recreation offices.

### **Sheppard Air Force Base, Texas**

Before our visit in April 2010, we provided a list of 205 individuals we wanted to interview and have complete questionnaires. Only 15 Service members were available to complete questionnaires regarding the purchase of a financial product. All 15 Service members purchased the financial products off base at a shopping mall, and all stated they thought they had purchased savings and/or investment related products. One of the airmen stated that the agent informed him he needed to buy the life insurance with the savings plan to make the savings portion tax-deferred.

Through questionnaires and interviews with the airmen, we were able to locate and visit the store at the mall near Sheppard Air Force Base, at which a kiosk in front of the store displayed the insurance agency's name and the sign, "Attention Military Members Register to Win." The storefront displayed posters calling attention to the military and

advertising free advice on Government programs such as the GI Bill, Veterans Affairs Home Loan, and Thrift Savings Plan as well as information on budget and financial planning, wealth accumulation, and savings and cash accumulation (see Figure 3).

**Figure 3. Storefront Display at Mall Near Sheppard Air Force Base**



In summary, the storefront displayed a sign leading to possible confusion regarding sponsorship and affiliation with the U.S Armed Forces, which violates States' insurance regulations, and which may have confused or misled Service members. Financial counseling services are available at every Airman and Family Readiness Center free of charge (provided by all Services in respective member and family centers).

## **Inappropriate Use of myPay to Initiate Life Insurance Allotments**

Service members, sometimes facilitated by insurance agents, inappropriately used DoD's automated pay system, myPay, to initiate life insurance allotments. Based on interviews and questionnaires, we concluded junior enlisted Service members signed up for life insurance either on or off base. Moreover, in many cases, junior enlisted Service members used computers provided by the life insurance agents to access myPay. Using myPay to initiate allotments for insurance violates DoD policies and procedures, and agents who assist Service members with using myPay accounts violate the State insurance regulations.

## **Violation of DoD and Military Service myPay Controls**

DoD and Military Service guidance forbid the use of myPay for initiating insurance allotments. Although DoD controls have been established to safeguard junior enlisted Service members, they continue to use myPay to purchase life insurance products.

### **DoD Controls**

The inappropriate use of myPay circumvents the 7-day cooling-off period, a safeguard established by DoD Instruction 1344.07, which provides the opportunity to seek financial counseling.

*The inappropriate use of myPay circumvents the 7-day cooling-off period, a safeguard established by DoD Instruction 1344.07, which provides the opportunity to seek financial counseling.*

The cooling-off period, established for personnel in pay grades E-4 and below, occurs when personnel use the required paper allotment form to initiate supplemental life insurance allotments. However, the paper-based process is circumvented by allotments initiated through myPay, because those allotments are processed within 3 days. In addition, the DoD Instruction

directs installation commanders to deny, suspend, or withdraw permission for a company and its agents to conduct commercial activities on base for various causes, including “the possession of, and any attempt to obtain supplies of, direct deposit forms or any other form or device used by Military Departments to direct a Service member’s pay to a third party, or possession or use of facsimiles thereof.” The instruction includes using or assisting in using a Service member’s myPay account or other similar Internet medium to establish a direct deposit for the purchase of insurance or other investment product.

In addition, the myPay allotment screen specifically prohibits use of this medium for insurance allotments. The screen states:

Financial Allotments which may be changed using myPay are those voluntary deductions to financial institutions with direct deposit. This does not include such items as charity, insurance, thrift saving, garnishments, union or other organizational dues. For these changes, see your servicing payroll office or Customer Service Representative.

## **Military Service Controls**

Army Regulation 37-104-4 “Military Pay and Allowances Policy,” June 8, 2005,” Air Force Supplement DoDI 1344.07\_AFI 36-2702, “Personal Commercial Solicitation on Air Force Installations,” November 7, 2007, and SECNAVINST 1740.2e “Solicitation and the Conduct of Personal Commercial Affairs on Department of the Navy Installations,” July 12, 2008, require Service members to complete a paper copy of the DoD Form 2558, “Authorization to Start, Stop or Change an Allotment.” Service members should send the form to their servicing finance or disbursing office for processing. The SECNAVINST 1740.2e also requires Service members to sign a memorandum indicating they have received financial counseling before the allotment form is processed. However, Service members can use myPay to initiate an allotment authorizing DFAS to direct part of an individual’s pay to a savings or checking account in the Service member’s name.

To strengthen existing DoD restrictions on the use of myPay for insurance allotments, Government Accountability Office (GAO) Report No.09-452, “Insurance Sales to Military Personnel: Additional Actions Needed to Prevent Improper Life Insurance Sales and Pay Allotment Transactions,” May 29, 2009, recommended DFAS implement controls and measures to improve its ability to detect and minimize the use of myPay to initiate insurance allotments. GAO also recommended DFAS provide Federal and State enforcement authorities information on companies that have been found to violate prohibitions on the use of myPay to establish a financial relationship other than those explicitly permitted. During our discussions with DFAS officials, they stated that they analyze allotment data semiannually and send this information to GAO and plan to send it to PDUSD (P&R). DFAS officials said their analysis of the data has shown trends similar to those we found during our analysis, indicating the continuing sales of life insurance. DFAS stated there is little they can do to stop these types of myPay allotments altogether without significantly impacting all Service members.

### ***Violation of State Controls***

The NAIC’s Model Regulation, adopted by 49 States, the District of Columbia and Puerto Rico, has identified the practice of insurers and their agents using or assisting in using a Service member’s myPay account or other similar Internet or electronic medium for the purchase of life insurance to be false, misleading, deceptive, or unfair. Further, it prohibits insurers from receiving funds from Service members to pay for a premium from a depository institution with which the Service member has no formal banking relationship. Although controls for this situation are in place, insurance agents and companies continue to circumvent these controls.

Because our review showed that junior enlisted Service members questioned continue to use myPay to initiate insurance allotments, we asked DFAS officials about the possibility of adding a pop-up box in myPay specifically warning Service members not to do so. DFAS officials thought this was a reasonable suggestion and commented that if it stopped other Service members from initiating life insurance allotments, it was a value-added control. DFAS stated that they would determine the cost to change the system and, if cost-effective, initiate action to obtain approval from the Configuration Control Board to add a pop-up box to myPay. On February 4, 2011, DFAS informed us adding the pop-up was considered a low level of effort, and cost for the pop-up box would range from \$2500 to \$7500.

On February 9, 2011, DFAS informed us that the Configuration Control Board did not approve adding the pop-up box to myPay because the Board believed the pop-up box design would disrupt the myPay process and overwhelm users. The Board also stated the pop-up box would have to be seen by all users initiating allotments and would require them to click on the box to remove it, another disruption to the process. The DFAS myPay office provided an alternative suggestion to add a flatline statement or warning to the myPay screen. However, the current myPay screen has a similar statement. Based on DFAS data shown in Table 1 on page 4, the current screen has not effectively deterred potential myPay allotments for life insurance.

The financial well-being of our Service members and their families is a priority. To ensure the proper controls are in place to mitigate risks to junior enlisted Service members, the pop-up box in myPay is a better control than the flatline statement or warning on the myPay screen, especially since the control requires a low level of effort and is low in cost.

## **Lack of Complaints From Service Members Limits Corrective Actions**

One of the challenges facing State regulators and military installation personnel seeking to initiate actions against insurance agents and companies is that few of the Service members affected make complaints. Some State insurance regulators we contacted said they would conduct investigations of insurance company sales practices if they received customer complaints. In addition, responsible installation personnel informed us that Service members rarely file complaints. As a result, insurance regulators in some States were unaware of the issues involving prohibited sales practices used to solicit junior enlisted Service members.

Service members must complain to facilitate refunds as well as to initiate punitive actions against sales agents or companies using deceptive sales practices. The following statements use DFAS data to illustrate why Service members should complain:

- DFAS allotment data received in August 2010 showed 1,787 of 2,142 allotments started at Fort Campbell, Kentucky, were stopped within 12 months. However, junior enlisted Service members paid more than \$600,000 into these allotments before stopping them.
- Insurance regulators in Tennessee and Kentucky received no complaints regarding these allotments.

The Director of the Tennessee Consumer Insurance Services, Department of Commerce and Insurance, and the Education Coordinator, met with Fort Campbell Army Community Services personnel in July 2010 and provided a financial awareness class to incoming soldiers. Soldiers at Fort Campbell had initiated the highest number of allotments on any installation but, as of September 2010, neither Tennessee nor Kentucky Insurance regulators had received any Service member complaints; therefore, no investigations were started.

A further analysis of the updated DFAS data, obtained in June 2010 for the Marine Corps and August 2010 for the other Military Services, showed that Service members stopped 10,480 out of 15,484 (68 percent) of the allotments; 9,460 out of 15,484 (61 percent) of which were stopped within 12 months. This could indicate that the majority of Service members may be unsatisfied with the insurance products they purchased. Although junior enlisted Service members stopped the allotments, they have potentially paid more than \$6 million into life insurance policy premiums, and because many Service members did not file complaints, it is unclear whether they obtained refunds.

Because complaints are critical for DoD and States to initiate actions against insurance agents and companies, we discussed the need to update financial training with PDUSD (P&R). Specifically, junior enlisted Service members must receive training on the need to file complaints and the value of filing them. For example, Service members should be informed that by submitting complaints, they can both facilitate refunds and initiate punitive actions against sales agents or companies using deceptive sales practices, as well as mitigate risks for other junior enlisted Service members who may otherwise purchase unsuitable life insurance.

## **DoD Needs to Improve Knowledge of Debarred and Banned Agents and Companies**

DoD lacked adequate information about agents and companies debarred, banned, or limited from solicitation on DoD installations. Specifically, DoD does not centrally collect and oversee the reporting of all commercial life insurance sales violations against military personnel under DoD Instruction 1344.07, Military Services' policies, and the States' insurance regulations. PDUSD (P&R) is responsible for maintaining a list of agents and companies presently debarred, banned, or otherwise limited from soliciting on any or all DoD Installations as reported by the Military. In addition, PDUSD (P&R) prepares the "Control of Personal Commercial Solicitation on DoD Installations" report (Commercial Solicitation Report), which lists solicitation violations and posts the report to the Web site at [www.commanderspage.com](http://www.commanderspage.com).

During our review, we identified several States that have taken action against insurance agents and companies that have violated the States' insurance regulations; however, the Commercial Solicitation Report included none of the States' actions. Moreover, no requirement exists for States to forward solicitation violations to DoD for inclusion into the Commercial Solicitation Report. If an insurance agent or company is debarred from operating in a State, then the State should provide the information to DoD. DoD and the NAIC should work together to identify States' actions against insurance agents and companies for inclusion in the Commercial Solicitation Report.

In addition, we identified Disciplinary Control Board off-limits actions taken against agencies and insurance agents; however, the Boards were not required to report those actions to PDUSD (P&R) for inclusion in the Commercial Solicitation Report. If off-limits actions are taken against agencies and agents, the Board should be required to provide the information to DoD. If the Commercial Solicitation Report does not include all actions against life insurance agents, agencies, and companies, DoD personnel responsible for approving or taking corrective action on commercial solicitations lack the information they need to make informed decisions.

Until DoD and the State insurance regulators work together to share more information and to enforce both the DoD Instruction 1344.07 and the States' insurance regulations, some insurance companies will continue to sell unsuitable life insurance products to junior enlisted military personnel. PDUSD (P&R) should obtain solicitation violations from States and the Disciplinary Control Boards off-limits actions to include in the Commercial Solicitation Report. This practice will help ensure responsible DoD

personnel have information critical to deciding whether to grant base passes and solicitation privileges and assist with ensuring enforcement of appropriate actions.

## **State Insurance Regulators Took Punitive Actions**

In 2006, more than 40 State insurance departments collaborated through the NAIC to sign a settlement with American-Amicable Life Insurance Company and its affiliates, Pioneer American Insurance Company and Pioneer Security Life Insurance Company, which were involved in improper sales of insurance and investment products to Service members. The settlement required the companies to provide refunds and increased policy benefits totaling \$70 million to about 92,000 policy holders. The settlement was the result of a 20-month investigation led by the Georgia and Texas insurance departments, the U.S. Department of Justice, and the U.S. Securities and Exchange Commission.

To help locate Service members entitled restitution from American Amicable and its affiliates via the settlement, the NAIC membership established a search tool on the NAIC Web site in April 2009, through which individuals can conduct an online search using Service members' last name and first name to identify whether they are entitled to restitution and the possible amount of restitution. As of February 21, 2011, the NAIC search tool had a total of 18,463 unique users, a total of 33,505 searches, and 2,298 hits (first and last name matches).

The NAIC developed the Military Sales Practices Model Regulation, adopted in June 2007. Currently, 49 States, the Commonwealth of Puerto Rico, and the District of Columbia have passed the law. Michigan is the only State waiting for final legislative approval. In addition, various State insurance regulators have taken the following actions since adopting the Military Sales Practices Model Regulation:

- Florida's Office of Insurance Regulation reached an agreement with American Fidelity Life Insurance Company and Trans World Assurance on December 28, 2009, which resolved issues occurring around Pensacola Naval Air Station during 2008 and 2009. The companies agreed to pay penalties of \$175,000 and \$75,000. They were required to issue refunds to the sailors and Marines affected.
- In 2008, Georgia Department of Insurance banned Trans World Assurance from doing business in Georgia, fined the company \$214,000, and ordered them to refund funds collected from active military sales in Georgia since September 2007. Trans World Assurance appealed the decision but finally surrendered its certificate of authority to operate in Georgia on May 5, 2010.
- Illinois Department of Insurance took action on July 29, 2010, to revoke the licenses of an agency, American Mutual of Illinois, and three agents. They cited the agency for violations of the State's insurance regulation, including misrepresenting life insurance as a "savings" plan at Naval Station Great Lakes. The insurance agency was fined \$100,000, the maximum allowable fine in Illinois.

- Oklahoma Insurance Department initiated an examination of the market conduct activities of a life insurance company after learning about the company's non-compliance with the State insurance regulations in other states. The purpose of the examination was to determine compliance with the Oklahoma laws and regulations, primarily the new State insurance regulation. The examination found violations of 11 rules of the Oklahoma Administrative Code, such as prohibiting by default the diversion or transfer of funds in the side fund to pay, reduce, or offset any life insurance premiums due and receiving funds from a Service member from a depository institution with which the Service member has no formal banking relationship. The State issued an administrative order against the company on November 16, 2009. The insurance company appealed the ruling to a district court in Oklahoma, but on September 22, 2010, a judge denied the administrative appeal. The Oklahoma Insurance Department is currently working to issue an order dealing with the company's conduct, which should result in penalties.
- California Department of Insurance came to an agreement with Trans World Assurance company for "violating regulations designed to prevent insurers from taking advantage of active duty Service members." The settlement included a fine of \$275,000, plus refunds of all premiums deducted from policy holders' savings since the State insurance regulation became effective.

While some States have taken action, other State Insurance Regulators should consider proactive actions in reviewing the practices used by these insurance companies to solicit junior enlisted Service members. Additional States' actions could mitigate risks to junior enlisted Service members of unneeded and costly life insurance.

## **DoD Took Corrective Actions to Mitigate Risks**

During our review, DoD personnel initiated corrective actions to address issues and mitigate risks pertaining to unsuitable life insurance products insurance agents were selling to junior enlisted Service members on- and off-bases.

### **Sheppard Air Force Base Corrective Actions**

Following our site visit to Sheppard Air Force Base, Texas, we were informed that the Commanding General issued an emergency off-limits order prohibiting Sheppard Air Force Base personnel from patronizing a sales office selling questionable life insurance products to airmen at the local mall. Following the issue of the Sheppard off-limits order, Security Forces Squadron personnel informed us that the office in the mall had closed. Subsequently, the matter was brought up before the regional Disciplinary Control Board, and the insurance agency was put off-limits to all Service members at Fort Sill, Oklahoma.

Since our review, we obtained updated allotment data from DFAS in August 2010. After reviewing it, we determined that in the 3 months following the signing of the off-limits order, airmen had not started any new allotments to the three banks associated with the

life insurance companies previously identified as selling unsuitable life insurance products. The timely and decisive actions taken by Sheppard Air Force Base officials resulted in the protection of airmen from prohibited practices regarding sales of insurance and investment products.

### **Fort Campbell Corrective Actions**

Following our site visit to Fort Campbell, Army Community Service personnel informed us that they have updated and enhanced consumer awareness training to prevent junior enlisted Service members from buying unsuitable life insurance products on- and off-base. For example, Army Community Service personnel said they were adding the NAIC “Red Flag” advisory to the First Term Soldier’s Financial Readiness briefing and will provide a copy of the advisory to participants. The “Red Flag” advisory alerts members of the Armed Forces to deceptive life insurance marketing and sales practices typically used by agents selling life insurance policies as an investment or savings plan. The advisory encourages Service members who have encountered deceptive sales practices to contact their Financial Readiness Office or State insurance regulator for assistance.

### **Camp Pendleton Corrective Actions**

Following our site visit, Camp Pendleton personnel informed us that they took action against the insurance agent who conducted a financial training class and sold insurance policies on base. Camp Pendleton personnel filed a complaint with the life insurance company and subsequently received premium refunds for the Marines identified in the complaint, and the insurance agent’s business pass was revoked. In addition, Camp Pendleton personnel issued a Basegram, October 7, 2010, on the “Sales of Insurance, Financial Products, and Classes.” The Staff Judge Advocate distributed the Basegram to remind base personnel not to allow financial classes or presentations to Marines unless the agents have previously been cleared to do so by the cognizant Staff Judge Advocate. The Basegram also states all life insurance sales are by appointment only and to report a known or suspected violation by calling the base insurance officer. Camp Pendleton personnel also informed us they filed a complaint with the California State Insurance regulators highlighting the prohibited practices used by the sales agent.

### **Marine Corps Japan Corrective Actions**

Marine Corps Japan officials issued the Marine Corps Bases Japan Order 5340.2, July 28, 2010, “Personal Commercial Solicitation on Marine Corps Bases Japan,” establishing local policy on personal commercial solicitation. The Order requires all insurance agents to have specific appointments, and all insurance products for sale must be approved by the base Marine Corps Community Service activity. In addition, the Order reiterates prohibited practices from DoD and DON guidance and should make junior enlisted Marines aware of solicitation practices that are prohibited from occurring on base.

### **Headquarters U.S. Marine Corps Corrective Actions**

On January 18, 2011, Headquarters U.S. Marine Corps issued a Marine Administrative Message (commonly referred to as a MARADMIN). MARADMIN 035/11, “Personal Commercial Solicitation and Financial Education Classes” states that personal financial

education classes, including such subjects as insurance, government benefits, savings, credit and debt management, budgeting, and other financial education and assistance, may only be presented by persons and organizations authorized by DoD Instruction 1344.07 and SECNAVINST 1740.2E. In addition, it states that under no circumstances may commercial insurance sales agents, including employees or representatives of commercial loan, finance, insurance, or investment companies, be allowed to conduct or participate in installation or unit personal financial education presentations. It also restates that all personal commercial solicitation and insurance sales onboard Marine Corps installations must comply with DoD Instruction 1344.07 and SECNAVINST 1740.2E, and at no time will an individual be permitted to solicit insurance or securities products on a Marine Corps installation without written authorization from the installation commander. In addition, it encourages Marines to seek counseling from disinterested third parties such as unit command financial specialists, personal financial management specialists at Marine Corps Community Services offices, or legal assistance attorneys before purchasing commercial insurance or investment products.

Corrective actions taken by the Headquarters U.S. Marine Corps, Marine Corps Base Camp Pendleton, and Marine Corps Base Camp Smedley D. Butler, Okinawa, Japan, addressed the internal control problems identified during the audit regarding the enforcement of existing commercial solicitation activities and practices on base Camp Pendleton and Marine Corps Camps in Okinawa, Japan. Therefore, we do not make a recommendation on this issue.

## **Actions for Congress to Consider to Assist with Mitigating Risks**

Congress, through Public Law 109-290, required the DoD OIG to conduct a study on the impact of DoD Instruction 1344.07 and the reforms included in the Act on the quality and suitability of sales of securities and insurance products that are marketed or otherwise offered to members of the Armed Forces. This is our third and final review required by the public law. On December 30, 2010, we provided briefing charts summarizing our tentative findings to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

We found that some insurance agents continue to market high-cost life insurance products with minimal death benefits and an accumulation fund, often as investment or savings plans. However, many such sales occurred off-base near sites visited. As stated in the Public Law 109-290, Congress considers these products “entirely inappropriate for most military personnel.” The purpose of the Public Law 109-290 is “to protect members

*Some insurance agents continue to market high-cost life insurance products with minimal death benefits and an accumulation fund...*

of the Armed Forces from unscrupulous practices regarding sales of insurance, financial, and investment products.” However, Public Law 109-290 addresses only those sales occurring on Federal land. Because we found that most sales at stateside installations we visited are occurring off-base, Congress should consider protective

measures for Service members targeted for sales, regardless of location.

Although we understand “no act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State” regarding insurance regulation, we believe Congress might want to consider ways to encourage States with large military populations to be proactive in investigating off-base sales of life insurance products, particularly those it considers “entirely inappropriate for most junior Service members.” Oklahoma, for example, is one State that has successfully undertaken such investigations. Although DoD continues to address issues and risk areas regarding this matter, we believe proactive actions by States with large military populations are critical for mitigating risks for Service members.

## **Conclusion**

DoD policies and the mandated reforms in Public Law 109-290 on the quality and suitability of sales of financial products to Service members were generally effective. Current controls provide safeguards and promote the welfare of DoD personnel as consumers by setting forth a uniform approach to the conduct of all personal commercial solicitation on and off military bases. However, responsible officials should do more to protect Service members because:

- insurance agents and companies are using prohibited practices to circumvent controls through off-base commercial solicitation;
- some responsible installation personnel are not always enforcing solicitation policies;
- Service members are using myPay to process insurance allotments, which circumvents a critical time period needed for Service members to seek financial counseling; and
- Service members are not filing complaints to their installation command or to appropriate State insurance regulators, taking away the opportunity for refund of premiums paid as well as potential disciplinary actions taken against agents and insurance companies.

In addition, the Commercial Solicitation Report does not contain all actions against life insurance agents, agencies, and companies because DoD does not have adequate information about all actions taken and, therefore, does not include some Disciplinary Control Board and State insurance regulator actions in the report. Without this data, DoD misses opportunities to ensure responsible DoD personnel have information critical to deciding whether to grant base passes and solicitation privileges and assist with ensuring enforcement of appropriate actions.

Although DoD and some States initiated actions against insurance agents and companies, junior enlisted Service members at the installations visited continue to purchase high-cost life insurance products considered unsuitable for most military personnel and which may threaten their financial stability. Based on the data in Appendix B, we believe the same problems exist at other installations.

## **Management Comments on the Finding and Our Response**

While the Deputy Assistant Secretary of Defense for Military Community and Family Policy agreed with our recommendations, the Deputy Assistant Secretary provided the following comments.

### ***DoD Instruction 1344.07 Provides Sufficient Guidance***

The Deputy Assistant Secretary of Defense for Military Community and Family Policy stated that sufficient guidance exists within DoD Instruction 1344.07, “Personal Commercial Solicitation on DoD Installations,” March 30, 2006, to address deficient areas identified in the report.

### ***Our Response***

We recognize that the DoD Instruction provides general guidance as shown on page 7 of this report; however, the reporting requirements of the Commercial Solicitation Report should be made more specific to improve controls. Recommendation 1 specifies changes to the reporting requirements that will improve internal controls. We also revised Recommendation 1.a based on the Deputy Assistant Secretary’s comments.

## **Recommendations, Management Comments, and Our Response**

### ***Revised Recommendation***

As a result of management comments and follow up discussions with the Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, we revised draft Recommendation 1.a to clarify reporting requirements needed for the Commercial Solicitation Report.

#### **1. We recommend that the Deputy Assistant Secretary of Defense for Military Community and Family Policy, require the following information be reported in the Commercial Solicitation Report:**

- a. Agents barred the agency for which they worked, and the life insurance company that underwrites the products being sold.**

### ***Deputy Assistant Secretary of Defense for Military Community and Family Policy Comments***

The Deputy Assistant Secretary agreed with the recommendation in the draft report and stated that the agents/companies are currently listed in the report.

### ***Our Response***

The Deputy Assistant Secretary’s comments to the recommendation in the draft report are responsive. While the Deputy Assistant Secretary is correct that the companies and agents are listed, in some cases, we revised Recommendation 1.a to require that agents,

the agency for which they work, and the company that underwrites the product being sold, are all included in the Commercial Solicitation Report. We request the Deputy Assistant Secretary provide additional comments to the final report that include completion date for the planned actions.

**b. Disciplinary Control Board off-limits actions against insurance agents and companies.**

**c. State Insurance Regulators' actions against insurance agents and companies.**

### ***Deputy Assistant Secretary of Defense for Military Community and Family Policy Comments***

The Deputy Assistant Secretary agreed with the recommendations and stated that the Office of the Assistant Secretary of Defense for Military Community and Family Policy will:

- Direct the Services to include Disciplinary Control Board off-limits actions in the report.
- Request that National Association of Insurance Commissioners provide actions taken by State Insurance Regulators for inclusion in the report.

### ***Our Response***

The Deputy Assistant Secretary's comments are responsive. However, he did not provide a completion date for these actions. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

**2. We recommend that the Deputy Assistant Secretary of Defense for Military Community and Family Policy, require Military Services to update financial training in an effort to increase junior enlisted Service members' awareness regarding the need for and value of filing complaints for deceptive or abusive life insurance marketing practices and unsuitable insurance products.**

### ***Deputy Assistant Secretary of Defense for Military Community and Family Policy Comments***

The Deputy Assistant Secretary agreed with the recommendation and stated that they will task the Services to develop materials to strengthen its Personal Financial Management Training to highlight filing complaints regarding deceptive and abusive practices.

### ***Our Response***

The Deputy Assistant Secretary's comments are responsive. However, he did not provide a completion date for this action. Therefore, we request that he provide comments on the final report that include a completion date for the planned actions.

**3. We recommend that the Director, Defense Finance and Accounting Service, add a pop-up warning to myPay alerting Service members that they cannot use myPay to initiate insurance allotments.**

### ***Defense Finance and Accounting Service Comments***

The Deputy Director, Operations, Defense Finance and Accounting Service (DFAS) proposed an alternative to the pop-up box. The Deputy Director stated that DFAS will use an “alert message.” When the user selects an allotment from the myPay menu options, the alert message will warn the user about potential inappropriate insurance and investment allotments and that these allotments should not be started using myPay. The Deputy Director also stated that DFAS presented the proposal at the May 12, 2011, myPay Configuration Control Board meeting. The Deputy Director stated the proposal was approved at the meeting. The change will be included in the myPay fall release, tentatively scheduled for October 2011.

### ***Our Response***

We consider the Deputy Director’s comments responsive. Planned actions meet the intent of the recommendation. No additional comments are required.

**4. We recommend that the Garrison Commander, Fort Campbell, make a determination on whether the life insurance business at the local mall should be off limits to Service members. If the conclusion is yes, then the Commander should initiate actions to put the agents’ business off limits.**

### ***U.S. Army Garrison, Fort Campbell Comments***

The Garrison Commander, Fort Campbell, partially agreed with the recommendation. The Commander stated the case is currently before the Fort Campbell, Kentucky, Armed Forces Disciplinary Control Board and also stated the next meeting, July 2011, will determine if the businesses and individuals should be placed off limits.

### ***U.S. Army Installation Management Command Comments***

The Commanding General provided the response for the Garrison Commander, Fort Campbell, Kentucky. The Commanding General agreed with the recommendation and endorsed the corrective actions planned by the Garrison Commander, Fort Campbell.

### ***Our Response***

The Garrison Commander’s comments are responsive and the actions meet the intent of the recommendation. No additional comments are required.

## Appendix A. Scope and Methodology

We conducted this performance audit from January 2010 through May 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

We performed this audit as required by Public Law 109-290, "Military Personnel Financial Services Protection Act," September 29, 2006. We reviewed the effects of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," March 30, 2006, and the reforms included in the Public Law 109-290 at the following locations: Fort Campbell, Kentucky; U. S. Army Garrison Yongsan, Sheppard Air Force Base, Texas; Marine Corps Base Camp Pendleton, California; Marine Corps Recruit Depot San Diego, California; and Marine Corps Camps, Okinawa, Japan.

We interviewed officials responsible for processing commercial solicitation permits on the installations as well as officials from the payroll, financial services, legal services, and investigation offices; representatives on the Armed Forces Disciplinary Control Boards; and the office responsible for approving commercial sponsorships. We non-statistically selected 1,319 names out of 15,665 allotments for 6 installations and had 65 junior enlisted Service Members complete a two-page questionnaire. We examined installation procedures for allowing commercial solicitors on the installations and reviewed documents pertaining to current investigations into inappropriate commercial solicitation practices and products on the installations. We also reviewed the financial and consumer awareness training provided to military personnel.

We contacted officials at the Office of the Under Secretary of Defense for Personnel and Readiness; Defense Criminal Investigative Service; U.S. Army Installation Management Command; Office of Assistant Secretary of the Navy (Manpower and Reserve Affairs); Navy Installation Command; Judge Advocate Division, U.S. Marine Corps; Deputy Chief of Staff for Manpower and Personnel; U.S. Air Force, Defense Finance and Accounting Service; U.S. Pacific Command, Hawaii; US Forces Japan, Kadena Air Base, Japan; and Marine Corps Air Station Miramar, San Diego, California.

We also contacted National Association of Insurance Commissioners personnel to discuss current actions the NAIC is taking with regard to inappropriate life insurance sales to members of the Armed Forces. In addition, we contacted the following State insurance offices: Oklahoma Insurance Department, Tennessee Department of Commerce and Insurance, Kentucky Consumer Affairs Office, California Department of Insurance, Illinois Department of Insurance, Georgia Office of Insurance and Fire Safety Commissioner, and Texas Department of Insurance to determine their coordination with DoD and their efforts to protect military personnel from dishonest and predatory insurances sales practices and unsuitable products.

## **Use of Computer-Processed Data**

We used computer-processed data to identify and select Service members who had allotments taken from their salary to pay for life insurance. The data that we used came from Defense Finance and Accounting Service's Defense Joint Military Pay System and the Marine Corps Total Force System. We reviewed data provided by DFAS showing all allotments made by Service members in grades E1 to E4 through the myPay system from January 2008 through March 2010 for the Army, Navy, and Air Force; and from November 2007 through March 2010 for the Marine Corps. We tested the accuracy of the data by having Service members fill out questionnaires and by conducting follow-on interviews to determine whether their allotments were for life insurance. We did not perform a formal reliability assessment of the computer-processed data. However, in our opinion, a reliability assessment was not necessary to address the audit objectives.

## **Prior Coverage**

During the last 6 years, GAO and the DoD OIG issued five reports discussing personal commercial solicitation of military personnel. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### **GAO**

GAO Report No.09-452, “Insurance Sales to Military Personnel: Additional Actions Needed to Prevent Improper Life Insurance Sales and Pay Allotment Transactions,” May 29, 2009

GAO Report No. 06-23, “Financial Product Sales: Actions Needed to Better Protect Military Members,” November 2, 2005

GAO Report No. 05-696, “Military Personnel: DoD Needs Better Controls Over Supplemental Life Insurance Solicitation Policies Involving Servicemembers,” June 29, 2005

### **DoD IG**

DoD IG Report No. D-2009-056, “Personal Commercial Solicitation of Military Personnel: Impact of DoD Actions and Public Law 109-290,” February 23, 2009

DoD IG Report No. D-2008-075, “Commercial Solicitation of Military Personnel on DoD Installations,” April 7, 2008

## **Appendix B. Top Five Allotments by Service/Installation Started From January 2008 Through February 2010**

<u>Service</u>	<u>Installation</u>	<u>Number of Allotments Started</u>
<b>Army</b>	Fort Campbell, Kentucky	2,055
	Fort Hood, Texas	1,590
	Seoul, Korea	635
	Fort Bragg, North Carolina	584
	Fort Sill, Oklahoma	554
<b>Navy</b>		
	Weapon Station Charleston, South Carolina	271
	Naval Air Station Pensacola, Florida	189
	Naval Station Great Lakes, Illinois	125
	Personnel Support Detachment Afloat-Atlantic	122
<b>Air Force</b>	Naval Station Norfolk, Virginia	104
	Sheppard Air Force Base, Texas	896
	Keesler Air Force Base, Mississippi	539
	Lackland Air Force Base, Texas	444
<b>Marine Corps</b>	Kadena Air Base, Japan	132
	Osan Air Base, Korea	86
	Camp Lejeune, North Carolina	1,984
	Camp Pendleton, California	585
	Okinawa, Japan	518
	Marine Corps Recruit Depot Parris Island, South Carolina	181
	Marine Corps Recruit Depot San Diego, California	158

## Appendix C. Endorsement Letter

# Letter from former military commanders in support of access to responsible businesses offering reliable financial products and opportunities.

We are writing to encourage your support for our men and women in uniform by ensuring their access to legitimate, reputable financial opportunities beyond those offered by the U.S. government.

Specifically, [REDACTED] and [REDACTED] have a long history of serving and supporting our military. Founded more than 45 years ago by WWII veteran [REDACTED], these companies served as a founding underwriter of the Servicemembers Group Life Insurance, (SGLI) which continues to provide insurance to our military families today. The [REDACTED] family remains deeply involved in the business, dedicated to the mission of supporting our military personnel. Based on many years of experience, each of us considers [REDACTED] - daughter of these companies' founder - to be a true patriot. In both her personal and professional endeavors [REDACTED] works tirelessly in support of our troops and their families, and we hold her in the highest regard.

Sadly, we recognize that all companies and their executives do not maintain the same ethical standards that we accept as "common virtues" of those in uniform. We applaud vigilant leaders who protect our dedicated military personnel from unscrupulous sales practices, but we would ask that you not punish all companies for the actions of a few.

We are not employees or otherwise affiliated with either of these companies. Our only interest is in providing today's military members with access to credible, legitimate financial opportunities. We believe that those who defend our country deserve the opportunity to supplement their government programs with products from other providers, especially when those providers have a good track record. We encourage you to ensure they have access to the same diversity of financial opportunities enjoyed by our nation's civilian workforce. Armed with accurate information on available opportunities, we are confident that today's men and women in uniform will make educated decisions that will positively impact their future.

Sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

<sup>3</sup> Redactions in body of letter include names of life insurance companies and company executives. Redactions in signature blocks are of six retired four-star flag and general officers.

# Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy Comments



PERSONNEL AND READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-4000

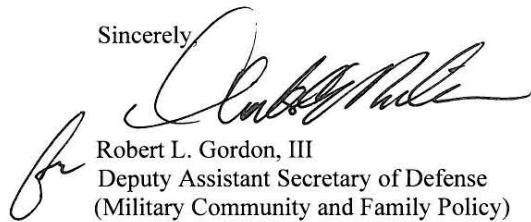
JUL 13 2011

Program Director, Readiness  
and Operations Support  
Office of the Inspector General  
for the Department of Defense  
400 Army Navy Drive  
Arlington, Virginia 22202-4704

Dear [REDACTED]:

This is the Department of Defense (DoD) response to the DoDIG Draft Report on Additional Actions Needed to Mitigate Risk of Unsuitable Life Insurance Sales to Junior Enlisted Service Members (Project No. D2010 –D000LD-0095.000). The Department acknowledges receipt of the Draft Report for review; comments are attached. Sufficient guidance exists within DoD Instruction 1344.07, “Personal Commercial Solicitation on DoD Installations,” dated 30 March 2006 to address deficient areas identified in the report. The Department intends to remain vigilant in enforcing the provisions of DoD Instruction 1344.07.

Sincerely,



Robert L. Gordon, III  
Deputy Assistant Secretary of Defense  
(Military Community and Family Policy)

Enclosure:  
As stated

**OSD COMMENTS TO THE DODIG DRAFT REPORT  
(Project No. D2010 -D000LD-0095.000)**

Recommendations

1. DASD(MC&FP) require the following information be reported in the Commercial Solicitation Report:

a. Agents barred and the company whose products they were selling.

OSD Response: Concur. The agents/companies barred are currently listed on the report.

Revised  
Recommendation  
1.a

b. Disciplinary Control Board Off-Limits actions against insurance agents and companies.

OSD Response: Concur. Will direct the Services to include Disciplinary Control Board Off-Limits actions against agents and companies on the quarterly report.

c. State insurance regulators' actions against insurance agents and companies.

OSD Response: Concur. Will request National Association of Insurance Commissioners (NAIC) provide State Insurance Regulators actions against insurance agents and their companies for inclusion in the report.

2. DASD(MC&FP) require Military Services to update financial training in an effort to increase junior enlisted Service members' awareness regarding the need and value of filing complaints for deceptive and abusive life insurance marketing practices and unsuitable insurance allotments.

OSD Response: Concur. Will task the Military Services to develop materials to strengthen its Personal Financial Management Training to highlight filing complaints regarding deceptive and abusive life insurance practices.

3. Director, Defense Finance and Accounting Service (DFAS), add a pop-up warning to myPay alerting Service members that they cannot use myPay to initiate life insurance allotments.

OSD Response: Defer to DFAS.

4. Garrison Commander, Fort Campbell, make a determination on whether the life insurance business at the local mall should be off limits to Service members. If the conclusion is yes, then the Commander should initiate actions to put the agents' business off limits.

OSD Response: Defer to the Army

# Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
ARLINGTON  
1851 SOUTH BELL STREET  
ARLINGTON, VA 22240-5291

JUN 17 2011

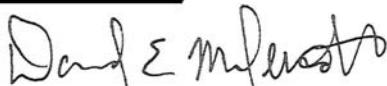
DFAS-J

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE, OFFICE OF  
THE INSPECTOR GENERAL, DoD

SUBJECT: Management Comments to Draft Report, "Additional Actions Needed to Mitigate  
Risks of Unsuitable Life Insurance Sales to Junior Enlisted Service Members,"  
Dated May 26, 2011, Project D2010-D000LD-0095.000

Attached are the management comments to recommendation 3 for subject report.

If you have questions or concerns regarding these comments your staff may contact  
[REDACTED]

A handwritten signature in black ink, appearing to read "David E. McDermott".

David E. McDermott  
Deputy Director, Operations

Attachment:  
As stated

**Management Comments to Draft Report, “Additional Actions Needed to Mitigate Risks of Unsuitable Life Insurance Sales to Junior Enlisted Service Members”, Dated May 26, 2011, Project D2010-D000LD-0095.000**

**Recommendation 3:** We recommend that the Director, Defense Finance and Accounting Service, add a pop-up warning to myPay alerting Service members that they cannot use myPay to initiate insurance allotments.

**Management Comments:** An alternative to the proposed pop-up screen was discussed with and accepted by the DoDIG representative. The proposal was presented and approved at the May 12, 2011 myPay CCB meeting. The alternative proposal will use an “alert type message.” In this situation, when the user selects allotments from the myPay menus options, the following or a similar alert message would be displayed:

**Some Insurance companies are approaching Service members to start inappropriate insurance and investment allotments. These allotments should not be started using myPay. See your servicing payroll representative for details before starting an insurance or investment allotment using myPay.**

The user must click the “ok” button acknowledging that they have read the message before they can access the screen to start or change an allotment.

**Estimated Completion Date:** The change will be included in the myPay Fall release, tentatively scheduled for October 2011. ECD October 31, 2011

# U.S. Army Installation Management Command Comments



REPLY TO  
ATTENTION OF

IMCG

DEPARTMENT OF THE ARMY  
US ARMY INSTALLATION MANAGEMENT COMMAND  
2405 GUN SHED ROAD  
FORT SAM HOUSTON, TEXAS 78234-1223

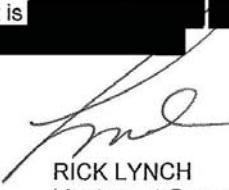
JUN 24 2011

MEMORANDUM FOR Deputy Inspector General for Auditing, Department of Defense  
Inspector General, 400 Army Navy Drive, Room 801, Arlington, VA 22202-4704

SUBJECT: Command Reply to Draft Report on the Audit of Additional Actions Needed  
to Mitigate Risks of Unsuitable Life Insurance Sales to Junior Enlisted Service Members  
(Project D-2010-D000LD-0095)

1. The US Army Installation Management Command (IMCOM) has reviewed the subject report and the Fort Campbell command reply enclosed. IMCOM concurs with the recommendation and corrective action.
2. The Internal Review point of contact is [REDACTED]

Encl  
as



RICK LYNCH  
Lieutenant General, USA  
Commanding

# U.S. Army Garrison, Fort Campbell, Kentucky Comments



DEPARTMENT OF THE ARMY  
INSTALLATION MANAGEMENT COMMAND, SOUTHEAST REGION  
HEADQUARTERS, UNITED STATES ARMY GARRISON, FORT CAMPBELL  
39 NORMANDY BOULEVARD  
FORT CAMPBELL, KENTUCKY 42223-5617

REPLY TO  
ATTENTION OF

IMSE-CAM-IR

9 June 2011

MEMORANDUM THRU Director, U.S. Army Installation Management Command,  
Southeast (ATTN: IMSE-IR), Fort McPherson, GA 30330-1057

FOR Commanding General, Installation Management Command, 11711 Interstate  
Highway 35 North, Suite 110, San Antonio, TX 78233-5498

SUBJECT: Command Reply to Draft Report, DODIG Audit of Additional Actions  
Needed to Mitigate Risks of Unsuitable Sales to Junior Enlisted Service Members,  
(D2010-D000LD-0095)

1. U. S. Army Garrison, Fort Campbell, KY reviewed the subject report. Our response  
to the recommendation is enclosed.
2. The Internal Review point of contact is [REDACTED]

Encl

  
PERRY C. CLARK  
COL, SF  
Commanding

U.S. Army Garrison, Fort Campbell, KY Comments  
DODIG Draft Report, Audit of Additional Actions Needed to Mitigate Risks of Unsuitable  
Life Insurance Sales to Junior Enlisted Service Members  
(Project (D2010-D000LD-0095)

**DODIG Recommendation 4 for Garrison Commander, Fort Campbell, KY:**

We recommend that the Garrison Commander, Fort Campbell, make a determination on whether the life insurance business at the local mall should be off limits to Service members. If the conclusion is yes, then the Commander should initiate actions to put the agents' business off limits.

**Command Comments to Recommendation 4:**

Partial Concur. We concur with the audit recommendation; however, the case is pending before the Fort Campbell Armed Forces Disciplinary Control Board.

The next meeting of the Armed Forces Disciplinary Control Board will determine if the businesses and individual involved should be placed off limits and/or barred from the installation. This meeting will be held in the month of July 2011, and as appropriate, the businesses and individuals will be advised of the Armed Forces Disciplinary Control Board decision.







# Inspector General Department of Defense